



**STATE INVESTMENT BOARD
BOARD ADOPTED POLICIES**

POLICY NUMBER: 2.14.200

EFFECTIVE DATE: 3/21/02

TITLE: Bond Market Fund

SUPERSEDES: 10/25/01

BOARD ADOPTION: 3/21/02

APPROVED:

A handwritten signature in black ink, appearing to read 'Brubaker', is written over a horizontal line.

PURPOSE:

This document outlines the investment policy and guidelines for the Bond Market Fund and supersedes any prior Board-adopted policies.

These guidelines will allow for sufficient flexibility in the management process to capture investment opportunities, yet provide parameters that will ensure prudence and care in the execution of the investment program.

This is a commingled investment fund created by the State Investment Board (SIB) in accordance with RCW 43.33A.170, and available for any of the assets under trusteeship of the SIB. The trust is established to invest primarily in intermediate maturity corporate bonds. It will be daily valued and open daily for deposits and redemption.

This trust is suitable for qualified and non-qualified assets for which an intermediate corporate bond investment is desired. The fund initially will be offered as an investment option for the Deferred Compensation Program, Teachers Retirement System Plan 3, School Employee Retirement System Plan 3, and Judicial Retirement Account. Other stakeholder funds or assets may also be invested in the fund as warranted.

POLICY:

Standard of Care

Under RCW 43.33A.170, the SIB is authorized to establish commingled trusts for any of the assets under the SIB trusteeship. Further, under RCW 43.33A.030, the voting members of the Board are vested in the trusteeship of these assets. The Legislature has established a standard of care for investment of all SIB funds in RCW 43.33A.140. Additionally, the Board and its staff must comply with other state laws, such as the Ethics in Public Service Act, 42.52 RCW, as it makes its investment decisions and seeks to meet the investment objectives listed below.

Investment Objectives

Actively manage to meet or exceed the return of the Lehman Intermediate Credit Index given a similar level of risk.

The fund will be managed, invested, and reported in a consistent manner and to a high level of quality to ensure investor confidence in the fund. Any action likely to violate investor confidence and trust will be deemed contrary to the spirit of this policy.

Portfolio Constraints

All assets under management by the SIB are to be invested to maximize return at a prudent level of risk (RCW 43.33A.110 and 43.33A.140).

“Investment grade” is defined as rated Baa3 or higher by Moody’s Investors Service (Moody’s).

Although fixed income securities that are rated below investment grade by Moody’s may not be purchased, portfolio holdings that are downgraded to those levels or are no longer rated may continue to be held.

A. Permissible Investments:

1. *Credit Bonds*
2. *U.S. Treasury and Government Agencies*

B. Liquidity: The portfolio shall be made up of large, liquid credit bonds to provide for daily pricing and to meet all participant withdrawals.

C. Duration: The fixed income portfolio duration range shall not exceed plus or minus 15 percent of the Lehman Intermediate Credit Index.

D. Size: No corporate fixed income issue’s cost shall exceed three percent of the fund’s market value at the time of purchase, nor shall its market value exceed six percent of fund’s market value at any time (RCW 43.33A.140).

Reporting

- A. A management information system is to be used for reporting internally to senior staff on the implementation of this policy. This report is prepared monthly to include, but is not limited to:
1. Current market value and portfolio characteristics compared to policy guidelines and index characteristics;
 2. Delinquencies and defaults; and,
 3. Participant cash flows.
- B. An executive management report will be provided to the Board quarterly showing market values and performance.
- C. At a minimum, annual reports on the asset allocation, income return, and trust status will be provided to major stakeholders.

RESPONSIBILITIES:

State Investment Board - Responsible for approving the fund's strategic investment policy.

Public Markets Committee - Responsible for reviewing and recommending the strategic investment policy to the Board, and for reviewing the structure, strategy, and performance of the fund.

Staff - Responsible for management of the fund, ensuring effective and efficient daily pricing and establishing a net asset value (NAV). Also responsible for implementing the policy and preparing and presenting the quarterly investment reports for the Board and annual reports for stakeholders.

Policy Adopted 7/20/00
Revised 3/30/01 (Supersedes SIB Policy 2.15.500, 7/20/00)
Revised 10/25/01 (Supersedes SIB Policy 2.60.200, 3/30/01)
Revised 3/21/02